

Message Text

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SUBJ: COMPROMISE ON ECONOMIC ISSUES

REFS: (A) 76 COPENHAGEN 2698, (B) 76 COPENHAGEN 2771

SUMMARY: FOLLOWING NATIONAL ELECTIONS ON FEBRUARY 15, THE RULING
SOCIAL DEMOCRATS RESUMED NEGOTIATIONS WITH THE SMALL CENTER PAR-
TIES THAT PARTICIPATED IN THE SO-CALLED AUGUST 1976 COMPROMISE.
ON FEBRUARY 28, AGREEMENT WAS REACHED WITH CENTER DEMOCRATS, RAD-
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ICAL LIBERALS, CHRISTIAN PEOPLES PARTY, AND CONSERVATIVES ON A
PACKAGE, INCLUDING DEFENSE (WHICH REPORTED SEPARATELY). WHEN THE
FOLKETING RECONVENED ON MARCH 2, A SERIES OF BILLS WAS INTRODUCED
RAPIDLY, AND THE TAX BILLS WERE ADOPTED ON MARCH 8. THEIR MAJOR
FEATURES ARE (A) SUBSIDIZATION OF EMPLOYMENT PROGRAMS; (B) ASSIST-
ANCE TO NON-PROFIT HOUSING; (C) REVISION OF DOMICILE AND LAND
TAXES; (D) A NEW TAX ON ELECTRIC POWER CONSUMPTION AND INCREASED

STAMP TAXES TO HELP FINANCE THE EMPLOYMENT PROGRAMS; AND (E) TIGHTER TAX CONTROLS ON INTEREST EARNINGS, PARTLY THROUGH A BOND COUPON TAX TO BE INTRODUCED ON JANUARY 1, 1978. ON THE SHOLE THESE MEASURES ARE LIKELY TO HAVE LITTLE EFFECT ON DENMARK'S BASIC ECONOMIC DISEQUILIBRIA. THE ABILITY OF THE PARTIES TO REACH THE "FEBRUARY 1977 COMPROMISE", HOWEVER, DOES MEAN THAT THE MORE IMPORTANT "AUGUST 1976 COMPROMISE" REMAINS INTACT. END SUMMARY.

1. A COMPROMISE REACHED ON FEBRUARY 28 BETWEEN THE RULING SOCIAL DEMOCRATS AND THE SMALL CENTER PARTIES INCLUDED AN EMPLOYMENT PROGRAM, ASSISTANCE TO AILING NONPROFIT HOUSING SOCIETIES, FIXING OF HOME AND LAND TAX RATES, AND AN ENERGY TAX. ON THE LAST ISSUE, THE GOVERNMENT WAS FORCED TO DROP ITS ORIGINAL BILL FOR A CRUDE ENERGY TAX (OIL AND COAL) (REF A) AND ACCEPTED INSTEAD A MORE LIMITED TAX ON POWER CONSUMPTION.

2. THE EMPLOYMENT PROGRAM HAS AN ESTIMATED TOTAL COST OF 810 MILLION KRONER (DOLS. 135 MILLION) OR ABOUT ONE PERCENT OF THE TOTAL GOVERNMENT BUDGET. IT REPRESENTS IN SEVERAL INSTANCES AN EXTENSION OF PREVIOUS SUBSIDY PROGRAMS. THESE INCLUDE ENERGY-SAVING MEASURES IN BOTH RESIDENTIAL AND BUSINESS BUILDINGS; REPAIR AND RENOVATION OF OLD APARTMENT BUILDINGS; BUSINESS CONSTRUCTION, BOTH NEW AND ALTERATIONS; DRAINAGE AND IRRIGATION OF FARMS; ENERGY SAVING MEASURES IN MANUFACTURING PROCESSES; EXPANSION OF POWER AND CENTRAL HEATING SUPPLY LINES; LAND AND BUILDING CONSERVATION; AND COASTAL PROTECTION.

3. INCIDENTAL TO THE EMPLOYMENT PROGRAM, REVISION OF SICK PAY LEGISLATION EXEMPTS THE FIRST THREE WEEKS OF EMPLOYMENT (PRESENT LIMITED OFFICIAL USE

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ONLY THE FIRST WEEK) FROM THE EMPLOYER OBLIGATION TO PAY SICK BENEFITS FOR FIVE WEEKS OF SICK LEAVE. THIS SHOULD REMOVE SOME EMPLOYER RETICENCE RE SHORT-TERM HIRING.

4. THE HIGH COSTS OF CONSTRUCTION THAT HAVE PRODUCED HIGH RENT LEVELS IN NEW HOUSING DEVELOPMENTS HAVE MADE IT INCREASINGLY DIFFICULT FOR NON-PROFIT HOUSING SOCIETIES TO SERVE LOW-INCOME GROUPS INTENDED. AT THE SAME TIME, THOSE BETTER OFF ARE INCREASINGLY SEEKING ONE-FAMILY HOUSES. THE NEW PROGRAM IS DESIGNED TO ASSIST NON-PROFIT HOUSING SOCIETIES THROUGH INCREASED MUNICIPAL SUBSIDIES IN THE FORM OF LOW-COST LOAN FINANCING, A SLOWER THAN PLANNED TERMINATION OF EARLIER INTEREST SUBSIDIES, AND A RETROACTIVE ESCALATION OF RENT SUBSIDIES TO LOW-WAGE TENANTS.

5. CORRESPONDING TO THIS ADDITIONAL SUPPORT FOR TENANTS, THE GOVERNMENT MADE TAX CONCESSIONS TO HOME OWNERS. ANTICIPATED INCREASES IN HOME AND LAND VALUE TAXATION RESULTING FROM REASSESSMENTS IN 1977 WERE MITIGATED BY LIMITATIONS ON TAX RATES. FARMERS RECEIVED COMPENSATORY REDUCTIONS IN PRODUCTION TAXES, CORRESPOND-

ING TO PART OF THE ANTICIPATED LAND TAX RISE.

6. REDUCED UNEMPLOYMENT BENEFIT COSTS SHOULD EVENTUALLY COMPENSATE FOR THE INCREASED OUTLAYS IN THE EMPLOYMENT PROGRAM. INITIALLY, HOWEVER, A TWO OERE PER KILOWATT HOUR OF ELECTRIC POWER CONSUMPTION IS DESIGNED TO FOOT PART OF THE BILL TO THE EXTENT OF 370 MILLION KRONER (DOLS. 62 MILLION). LARGE INDUSTRIAL CONSUMERS WILL GET THE TAX REFUNDED ON THEIR CONSUMPTION IN EXCESS OF FIVE MILLION KWH PER ANNUM. (THIS TAX WAS SHARPLY OPPOSED BY BOTH CONSERVATIVES AND LIBERALS AS DETRIMENTAL TO PRODUCTION COSTS.) OTHER TAXES WERE LEVIED ON LAND AND BUILDING REGISTRY (NEW ALLOTMENTS FOR ONE-FAMILY HOMES AND RE-REGISTRY OF APARTMENT BUILDINGS BY INDIVIDUAL APARTMENT OWNERSHIP) AND ON MORTGAGE PAPER WHERE THE STAMP TAX WAS RAISED FROM 0.6 PERCENT TO 1.5 PERCENT. THE STAMP TAX INCREASE, IN ADDITION TO ITS PURELY FISCAL PURPOSE, WAS DESIGNED TO DISCOURAGE PRIVATE SPENDING FINANCED BY MORTGAGING OF HOMES.

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7. IN ORDER TO TIGHTEN INCOME TAX CONTROLS, NEW LEGISLATION WILL MAKE INTEREST PAYMENTS REPORTABLE BY BANKS AND OTHER FINANCIAL INSTITUTIONS AND WILL EXTEND THE 30 PERCENT DIVIDEND TAX, PRESENTLY APPLICABLE TO SHARES, TO BOND COUPONS. THESE MEASURES BECOME EFFECTIVE JANUARY 1, 1978.

8. COMMENT: A. THE EMPLOYMENT PROGRAM IS VERY LIMITED IN SCOPE BUT COULD BE OF PARTICULAR HELP TO THE CONSTRUCTION INDUSTRY AND THUS MITIGATE A DECLINE IN EMPLOYMENT. IT IS UNLIKELY, HOWEVER, TO AFFECT THE OVERALL UNEMPLOYMENT RATE; AN ANTICIPATED 6 PERCENT OR MORE IN 1977 AS COMPARED TO 5 PERCENT IN 1975 AND 1976. B. THE ADDITIONAL ASSISTANCE TO NONPROFIT HOUSING MAY RESCUE SOME AILING SOCIETIES BUT DOES NOT SOLVE THE UNDERLYING PROBLEM AFFECTING HOUSING FOR LOWER INCOME GROUPS (SEE PARA 4 ABOVE). C. THE ELECTRIC POWER TAX HITS ELECTRICALLY HEATED HOMES BADLY AND WILL IMPOSE A LIMITED PRODUCTION COST INCREASE ON MANUFACTURING. D. TAKEN AS A WHOLE, THE LEGISLATION IS QUITE MODEST AND IS LIKELY TO HAVE LITTLE EFFECT ON BASIC DISEQUILIBRIA EVIDENT IN DENMARK'S LARGE BALANCE OF PAYMENTS DEFICIT AND HIGH INFLATION RATE. THE ABILITY OF THE SOCIAL DEMOCRATS AND THE SMALL PARTIES TO ACHIEVE THIS COMPROMISE, HOWEVER, DOES PRESERVE THE AUGUST 1976 COMPROMISE (REF B) WHICH CONTAINS IMPORTANT AUSTERITY MEASURES. DEAN

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